

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hiawathaland Library Cooperative	County Chippewa
Audit Date 9/30/05	Opinion Date 11/16/05	Date Accountant Report Submitted to State: 1/20/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature 		Date 1/20/06	

HIAWATHALAND LIBRARY COOPERATIVE

BASIC FINANCIAL STATEMENTS

September 30, 2005

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hiawathaland Library Cooperative
Sault Ste. Marie, Michigan 49783

We have audited the accompanying basic financial statements of the government activities, each major fund, and aggregate remaining other fund information of the Hiawathaland Library Cooperative, as of and for the year ended September 30, 2005, which collectively comprise the Hiawathaland Library Cooperative's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hiawathaland Library Cooperative, as of September 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on page 3 and the budgetary comparisons are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 16, 2005

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

The Library as a Whole

The Library's combined net assets decreased 2% from a year ago decreasing by \$7,683. In a condensed format, the table below shows a comparison of the net assets as of the current date.

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2005</u>
Current Assets	\$ 137,222	\$ 139,546
Capital Assets	<u>13,122</u>	<u>7,606</u>
Total Assets	<u>\$ 150,344</u>	<u>\$ 147,152</u>
Current Liabilities	\$ 11,243	\$ 15,152
Long-Term Liabilities	<u>689</u>	<u>1,271</u>
Total Liabilities	<u>\$ 11,932</u>	<u>\$ 16,423</u>
Net Assets		
Invested in Capital Assets	\$ 13,122	\$ 7,606
Unrestricted (Deficit)	<u>125,290</u>	<u>123,123</u>
Total Net Assets	<u>\$ 138,412</u>	<u>\$ 130,729</u>

The current level of unrestricted net assets for our governmental activities stands at \$123,123, or about 116% of expenses. This is within the targeted range set by the Library Board of Directors during its last budget process.

The following table shows the activities of the Library.

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2005</u>
Program Revenues		
Grants	\$ 31,821	\$ -
General Revenues		
State Sources	95,085	94,881
Investment Income	1,069	1,537
Other Revenue	<u>7</u>	<u>283</u>
Total Revenues	<u>127,982</u>	<u>96,701</u>
Program Expenses		
Recreation and Culture	<u>96,194</u>	<u>104,384</u>
Total Expenses	<u>96,194</u>	<u>104,384</u>
Change in Net Assets	<u>\$ 31,788</u>	<u>\$ (7,683)</u>

The Library's Funds

Our analysis of the Library's major funds begins on page 7, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Library as a whole. The Library Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's major fund for 2005 includes the General Fund. The Vehicle replacement fund was merged with the general fund during the period as per board directive.

Capital Asset and Debt Administration

At the end of 2005, the Library had \$7,606 invested in a broad range of capital assets, including equipment. In addition, the Library has invested significantly in computers within the Library. Capital acquisitions in the current year were \$0.

Long-term liabilities increased by \$582.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget Vs. Actual 5-Year History**

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2000 – 2001	-	118,470	107,536	-	(10,934)
2001 – 2002	-	101,459	100,013	-	1,446
2002 – 2003	-	99,699	93,256	-	(6,443)
2003 – 2004	105,485	118,697	127,826	22,341	9,129
2004 – 2005	105,485	100,005	96,702	(8,783)	(3,303)

General Fund Expenditures Budget Vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Final Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2000 – 2001	-	119,397	104,190	-	15,207
2001 – 2002	-	108,955	100,528	-	8,427
2002 – 2003	-	126,418	81,525	-	44,893
2003 – 2004	133,722	147,425	109,332	24,390	38,093
2004 – 2005	133,722	116,633	98,284	35,438	18,349

Original vs. Final Budget:

As a matter of practice, Hiawathaland Library Cooperative amends its budget during the year. For the fiscal year 2004-2005, the budget was amended throughout the year.

Change from Original to Final Budget:**General Fund Revenues:**

Total Revenues Original Budget	\$ 105,485
Total Revenues Final Budget	<u>100,005</u>
Decrease in Budgeted Revenues	<u>\$ 5,480</u>

The Cooperative's final budgeted general fund revenues differed from final budget by \$5,480, a variance of 5.2%.

General Fund Expenditures:

The Cooperative's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 133,722
Total Expenditures Final Budget	<u>116,663</u>
Increase in Budgeted Expenditures	<u>\$ 17,059</u>

As indicated above, the Cooperative's budgeted expenditures were more than final budget by 12.8%.

Economic Factors and Next Year's Budget

The Preliminary Budget for the 2005-06 Fiscal Year required certain estimates and assumptions be made as the budget was being drafted. These estimates and assumptions were based on current information available to the board and management.

Since the Cooperative's revenue is heavily dependent on State funding and the health of the State Aid, the actual revenue received depends on the State's ability to collect revenues to fund its appropriations.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Hiawathaland Library Cooperative, 541 Library Drive, Sault Ste. Marie, MI 49783, (906) 632-4342.

Basic Financial Statements

Hiawathaland Library Cooperative

Statement of Net Assets September 30, 2005

	Governmental Activities
ASSETS:	
Current Assets	
Cash & Investments - Unrestricted	\$ 127,922
Accounts Receivable - Trade	1,756
Other Receivables	1,235
Prepaid Expenses	8,633
	<hr/>
Total Current Assets	139,546
	<hr/>
Capital Assets:	
Property and Equipment (net of accumulated depreciation)	7,606
	<hr/>
TOTAL ASSETS	\$ 147,152
	<hr/> <hr/>
LIABILITIES:	
Current Liabilities	
Accounts Payable	\$ 3,394
Accrued Expenses	11,758
	<hr/>
Total Current Liabilities	15,152
	<hr/>
Long-term Liabilities	
Accrued Compensated Absences	1,271
	<hr/>
TOTAL LIABILITIES	\$ 16,423
	<hr/> <hr/>
NET ASSETS:	
Invested in Capital Assets	\$ 7,606
Unrestricted	123,123
	<hr/>
TOTAL NET ASSETS	\$ 130,729
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Hiawathaland Library Cooperative

Statement of Activities For the Year Ended September 30, 2005

Functions/Programs	Program Expenses	Governmental Activities Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:		
Recreation & Culture	\$ 104,384	\$ (104,384)
 Total Governmental Activities	 \$ 104,384	 (104,384)
 General Revenues:		
State Sources		94,881
Investment Earnings (Loss)		1,537
Miscellaneous		283
 Total General Revenues		 96,701
 Change in Net Assets		 (7,683)
 Net Assets - Beginning		 138,412
Net Assets - Ending		\$ 130,729

Hiawathaland Library Cooperative

Balance Sheet Governmental Funds September 30, 2005

	General	Vehicle Replacement Fund	Total Governmental Funds
ASSETS:			
Cash & Investments - Unrestricted	\$ 127,922	\$ -	\$ 127,922
Accounts Receivable - Trade	1,756	-	1,756
Accounts Receivable - Other	1,235	-	1,235
Prepaid Expenses	8,633	-	8,633
TOTAL ASSETS	\$ 139,546	\$ -	\$ 139,546
LIABILITIES:			
Accounts Payable	\$ 3,394	\$ -	\$ 3,394
Accrued Expenses	11,758	-	11,758
TOTAL LIABILITIES	15,152	-	15,152
FUND BALANCES:			
Unreserved and Undesignated	124,394	-	124,394
TOTAL FUND BALANCES	124,394	-	124,394
TOTAL LIABILITIES AND FUND BALANCES	\$ 139,546	\$ -	\$ 139,546

Hiawathaland Library Cooperative

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets September 30, 2005

Total fund balances – governmental funds \$ 124,394

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Property and equipment	\$ 109,181
Accumulated depreciation	<u>(101,575)</u>

Total capital assets	\$ 7,606
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences	<u>(1,271)</u>
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Total long-term liabilities	<u>(1,271)</u>
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Net assets of governmental activities	<u>\$ 130,729</u>
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Hiawathaland Library Cooperative

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended September 30, 2005

	General	Vehicle Replacement Fund	Totals Governmental Funds
REVENUES:			
State Sources	\$ 94,881	\$ -	\$ 94,881
Interest	1,538	-	1,538
Other	283	-	283
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	96,702	-	96,702
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Recreation & Cultural	98,284	-	98,284
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	98,284	-	98,284
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Transfers In	21,022	-	21,022
Transfers Out	-	(21,022)	(21,022)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	21,022	(21,022)	-
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	19,440	(21,022)	(1,582)
	<hr/>	<hr/>	<hr/>
FUND BALANCES, OCTOBER 1	104,954	21,022	125,976
	<hr/>	<hr/>	<hr/>
FUND BALANCES, SEPTEMBER 30	\$ 124,394	\$ -	\$ 124,394
	<hr/>	<hr/>	<hr/>

Hiawathaland Library Cooperative

Reconciliation of the Statement of Revenues, Expenditures, and Changes of Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2005

Net Changes in fund balances - total governmental funds \$ (1,582)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$5,516) exceeded capital outlays \$ 0.

(5,516)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences (585)

Changes in net assets of governmental activities \$ (7,683)

**Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005**

	<div>Agency Fund</div> <div>Lilja Trust</div> <div>Fund</div>
ASSETS:	
Cash & Investments - Restricted	<div>\$</div> <div>8,143</div>
 TOTAL ASSETS	<div>\$</div> <div>8,143</div>
 NET ASSETS:	
Held in Trust for Endowments	<div>\$</div> <div>8,143</div>
 TOTAL NET ASSETS	<div>\$</div> <div>8,143</div>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Library:

A – Reporting Entity

Hiawathaland Library Cooperative is a governmental unit created under Public Act 89 of 1977 of the State of Michigan. Library cooperatives were designed to provide services to member libraries, such as materials or grants for materials, inter-library loan services, continuing education programs, help in upgrading services and technology, and consultation. Hiawathaland Library Cooperative has eight member libraries and is governed by a Board of Trustees, appointed by local governing authorities. The nine member Board of Trustees represents the member libraries and various communities of the Cooperative. Hiawathaland's member libraries include: Bayliss Public Library, DeTour School-Public Library, Rudyard School-Public Library, St. Ignace Public Library, Tahquamenon School-Public Library, Whitefish Township Public Library, Manistique School-Public Library and Mackinac Island Public Library.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. All other revenue items are considered to be available only when cash is received by the government.

The Library reports the following major governmental funds:

General Fund – This is the Library’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Vehicle Replacement Fund – This fund accounts for vehicle expenses and future replacement activities. As per a Board directive, this fund was closed out and transferred into the general fund.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The library has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and grant receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., equipment and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Library management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each September, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing October 1 and lapses on September 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through a resolution passed by the Board.
- d. Budgetary control is exercised at the departmental level of the General and Vehicle Replacement Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Directors. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Library does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgeted amounts are as originally adopted or amended by the Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents:		
- Unrestricted	\$ 127,922	\$ -
- Restricted	<u>-</u>	<u>8,143</u>
Total	<u>\$ 127,992</u>	<u>\$ 8,143</u>

The breakdown for deposits are as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 127,922	\$ 8,143
Total	<u>\$ 127,922</u>	<u>\$ 8,143</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**Investment and Deposit Risk**

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The Library has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$1,433 of the Library's bank balance of \$137,008 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Library to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Furniture, fixtures and equipment	\$ 109,181	\$ -	\$ -	\$ 109,181
Subtotal	<u>109,181</u>	<u>-</u>	<u>-</u>	<u>109,181</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	<u>(96,059)</u>	<u>(5,516)</u>	<u>-</u>	<u>(101,575)</u>
Subtotal	<u>(96,059)</u>	<u>(5,516)</u>	<u>-</u>	<u>(101,575)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 13,122</u>	<u>\$ (5,516)</u>	<u>\$ -</u>	<u>\$ 7,606</u>
Depreciation Expense for Governmental Activities:				
Recreation and Culture			<u>\$ 5,516</u>	

NOTE 5 - LONG-TERM DEBT

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
COMPENSATED ABSENCES	\$ 689	\$ 583	\$ -	\$ 1,271

The Cooperative's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee during the current year are credited to the employee at year end. Employees are encouraged to use vacation benefits during current years. The Cooperative allows employees to carry over ten days of vacation time if desired by an employee. The Cooperative's employment policies provide for sick leave benefits to be earned at the rate of three hours per every 80 hours worked. When Cooperative employees separate from Cooperative employment, the employee is entitled to be paid for unused sick leave. The employee can accumulate a maximum of ninety days and upon termination will receive one half pay for each day accumulated.

Total accrued sick leave and vacation at September 30, 2005 amounted to \$1,271.

NOTE 6 - CONTINGENT LIABILITIES

The Hiawathaland Library Cooperative receives significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Hiawathaland Library Cooperative.

NOTE 7 - ECONOMIC DEPENDENCY

Hiawathaland Library Cooperative receives the majority of their funding in the form of Direct State Aid from the State of Michigan. Funding is also received from member libraries in the form of Indirect State Aid. A decrease in or elimination of these funds would adversely affect the operation of the Cooperative.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Hiawathaland Library Cooperative participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Bayliss Library Unit. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS was organized pursuant to Section 12a of Public Act 156 of 1951; MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by the Hiawathaland Library Cooperative personnel policy which requires members to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. During 2004, the employees' contributions totaled \$0. The Hiawathaland Library Cooperative is required to contribute at an actuarially determined rate which was 0% of the annual payroll for the administration based on the 2006 actuarial valuation beginning on July 1, 2006.

Annual Pension Costs – During the calendar year ended December 31, 2004, the Hiawathaland Cooperative contributions were \$0 in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The Cooperative paid the required contribution of \$0. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members' retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Information for GASB Statement No. 27

Year Ended December 31	(Employee) Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 35,940	100%	0%
2003	35,940	100%	0%
2004	32,311	100%	0%

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Overfunded (Unfunded) AAL (UAAL) (1)-(2)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	(6) UAAL as a Percent of Covered Payroll
2002	\$ 1,017,843	\$ 812,901	\$ 204,942	125%	\$ 150,842	0%
2003	986,076	553,784	432,292	178%	140,820	0%
2004	1,026,782	522,890	503,892	196%	184,224	0%

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

The Cooperative reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

Interfund Transfers:

TRANSFERS IN	TRANSFERS OUT	
		Vehicle Replacement Fund
General Fund	\$	<u>21,022</u>
Total	\$	<u><u>21,022</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Required Supplemental Information

Hiawathaland Library Cooperative

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 6,000	\$ -	\$ -	\$ -
State Sources	97,885	98,405	94,881	(3,524)
Interest	1,000	1,000	1,538	538
Other	600	600	283	(317)
TOTAL REVENUES	105,485	100,005	96,702	(3,303)
EXPENDITURES:				
Recreation and Culture:				
Salaries and Wages	39,629	41,625	40,790	835
Fringe Benefits	5,776	3,115	3,751	(636)
Office Supplies	1,000	1,000	376	624
Processing	50	50	-	50
Postage	4,500	4,500	1,844	2,656
Books	16,217	16,493	13,148	3,345
Audio Visual	6,500	6,500	6,828	(328)
Computers and Printers	3,500	-	-	-
Magazines	5,000	5,600	3,945	1,655
Rent	2,000	2,000	2,000	-
Audit	2,500	3,000	2,600	400
Telephone	1,800	1,800	94	1,706
Staff / Librarian Travel	2,500	2,500	4,310	(1,810)
Professional Development	1,000	1,000	693	307
Member Library Development	13,000	10,000	5,689	4,311
Furniture and Equipment - Capital Outlay	2,000	1,800	-	1,800
Board Meetings	2,000	2,000	2,203	(203)
Printing and Photocopy Expense	3,750	3,750	(227)	3,977
Contractual Services	13,000	8,200	9,970	(1,770)
Miscellaneous	500	500	59	441
Equipment Repair	1,000	700	126	574
Federal Grant	6,000	-	-	-
Other Expenditures	500	500	85	415
Total Recreation and Culture	133,722	116,633	98,284	18,349
TOTAL EXPENDITURES	133,722	116,633	98,284	18,349
EXCESS EXPENDITURES OVER REVENUES	(28,237)	(16,628)	(1,582)	15,046
OTHER FINANCING SOURCES (USES)				
Transfers In	-	21,022	21,022	-
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	21,022	21,022	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (28,237)	\$ 4,394	19,440	\$ 15,046
FUND BALANCE, OCTOBER 1			104,954	
FUND BALANCE, SEPTEMBER 30			\$ 104,954	

Hiawathaland Library Cooperative

Required Supplemental Information Budgetary Comparison Schedule Vehicle Replacement Fund For the Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
EXPENDITURES:				
Recreation and Culture	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-
EXCESS REVENUES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	(21,022)	(21,022)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(21,022)	(21,022)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ (21,022)</u>	(21,022)	<u>\$ -</u>
FUND BALANCE, OCTOBER 1			21,022	
FUND BALANCE, SEPTEMBER 30			<u>\$ -</u>	



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Trustees
Hiawathaland Library Cooperative
Sault Ste. Marie, MI 49783

We have audited the financial statements of the Hiawathaland Library Cooperative as of and for the year ended September 30, 2005, and have issued our reports thereon. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Hiawathaland Library Cooperative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hiawathaland Library Cooperative are described in Note 1 to the financial statements. A new accounting policy for recording capital assets was adopted during the fiscal year. We noted no transactions entered into by the Hiawathaland Library Cooperative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimated amount.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Hiawathaland Library Cooperative's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Hiawathaland Library Cooperative, either individually or in the aggregate, indicate matters that could have a significant effect on the Hiawathaland Library Cooperative's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hiawathaland Library Cooperative's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hiawathaland Library Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Accruals (Repeat)

Currently, the Hiawathaland Library Cooperative is recording their financial statements using the cash basis of accounting, while U.S. generally accepted accounting principles require that the modified accrual basis of accounting be used. Hiawathaland Library Cooperative should use the modified basis of accounting for the financial statements.

Status: The Cooperative is using the cash basis of accounting throughout the year.

Compensated Absences (Repeat)

Hiawathaland Library Cooperative has not implemented Governmental Accounting Standards Board (GASB) Statement No. 16, Accounting for Compensated Absences. We recommend that the Cooperative implement GASB No. 16 when recording Compensated Absences.

Status: The Cooperative has not updated its compensated absence policy.

Accounts Payables (Repeat)

Accounts payable per the general ledger should be reconciled monthly to the bills that are outstanding at month end. Proper payable accruals should be posted to the organization's general ledger to reflect accrual accounting.

Status: The Cooperative does not accrue its payables.

Prepays (Repeat)

Prepays should be reviewed and adjusted monthly.

Status: The Cooperative does not adjust prepaid amounts.

Conflict of Interest Policy (Repeat)

Upon a review of the organization's policies, we noted that there is no Conflict of Interest Policy in effect. To provide guidance when related party transactions occur, a Conflict of Interest Policy should be adopted which would set parameters and steps to be taken once a conflict occurs.

Status: The Cooperative does not have a Conflict of Interest Policy.

Disaster Recovery Policy (Repeat)

Upon a review of the organization's policies, we noted that there is no Disaster Recovery Procedure in effect. To provide guidance when a disaster occurs, a policy should be instituted which would provide procedures to be followed which would limit the amount of loss which might occur in the case of a disaster.

Status: The Cooperative does not have a Disaster Recovery Policy.

Fixed Assets (Repeat)

We noted that although the organization maintains a listing of its fixed assets which includes the cost, description as well as the tag number for each asset, there is no Capitalization dollar threshold for the organization. We recommend that the board implement a dollar threshold for its capitalization policy which would assist in coding the item as an expense or capitalizing and depreciating and tagging that asset.

Status: The Cooperative does not have a dollar threshold in its Capitalization Policy.

Pension Plan

The Cooperative has employees who are covered by a defined benefit pension plan that is in the name of Bayliss Public Library. We recommend that the plan break out those employees so they are accounted for separately from the Bayliss Library employees.

Conclusion

This information is intended solely for the use of the Audit Committee, Board of Directors, and management and is not intended to be and should not be used for anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 16, 2005